

Jean Jewell

From: Ed Howell
Sent: Monday, December 06, 2004 4:52 PM
To: Jean Jewell; Ed Howell; Gene Fadness; Tonya Clark
Subject: Comment acknowledgement

WWW Form Submission:

Monday, December 06, 2004
4:52:14 PM

Case: IPC-E-04-8
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Comment_description: Comments on decision on the Case Number IPC-E-04-8

I strongly support Marsha Smith's dissenting opinion in Order No. 29632. Had the decision been made to match her opinion, we would be entering a brave new world, one in which farmers and ranchers with good wind resources could own the equipment needed to convert this wind to a valuable resource. One which could help reverse the current downward spiral of Idaho's rural economies and where the externalities of competing energy sources would have a more level playing field.

And what would be the cost of such a decision? It could be negative. The interrelations between wind and hydropower are not well known or studied at this time. Any presumption that the cost of incorporating wind is positive has no basis in research. So, this decision assumes that the cost is positive and places it entirely in the realm of the Public Utilities Regulatory Policy Act (PURPA) power seller. This does not meet the intent of PURPA and in fact, builds another barrier to entry for small renewable energy projects, the kind of barrier PURPA is expressly designed to remove.

To illustrate the possible positive benefits of wind power to Idaho Power, examine Idaho Power's operation of its Hell's Canyon Dam complex. The November 8 issue of Idaho Power's Update weekly news summary has an article about Brownlee Reservoir. It states, "As of last week, the water level at Brownlee Reservoir was slightly more than 2,060 feet above sea level—17 feet below full pool." Any wind power that comes in could in effect raise the average level of Brownlee Reservoir. In addition to giving Idaho Power more flexibility in when to use the water for power generation, each cubic foot of water going through the generator would generate more power. What benefits are these two factors and are they included in the argument for putting addition barriers to small renewable energy resource generation in Idaho?

An October 11, 2004 Idaho Power Update article states, "Effective today (October 11) Idaho Power will voluntarily maintain outflows from the Hells Canyon Dam at approximately 8,500 cubic feet per second (cfs) until early December to aid with fall Chinook salmon spawning. During the balance of the year, the company fluctuates flows from the dam to meet its customers' needs for electricity." The article states later, "The lost generation resulting from the fall Chinook flow regime is made up by other Idaho Power resources or purchases from the wholesale electricity market." I ask, what lost generation is there if the amount of water outflow is the same? The answer is that the control of when water is released from dams for power generation has a great deal of value. The substitution of wind for water gives Idaho Power even more flexibility and adds to the value of the water behind its dams.

These statements from the Update article illustrate two points. First, the hydro system is used to match load peaks; and, second, the lost generation is not lost generation. It is a loss of the ability to time the generation to match peak loads, effectively reducing the value of that generation. So it is lost productivity in terms of dollars per unit of water, not kW per unit of water. Wind power, if brought in in sufficient quantities can enhance hydropower management. PURPA contracts without unjustified barriers can do just that.

Your staff points out that Idaho's PURPA rates are higher than anywhere else. This may be true, but it still does not create the market or opportunity intended by PURPA. As Jim Nichols, former Minnesota Secretary of Agriculture and currently a Lincoln County, Minnesota Commissioner and farmer said, "You have to create a market. Incentives don't work." He is building his own single-turbine project in which he is selling his power at 3.3 cents/kWh. You ask, 'how he can do that?' By not having the same barriers to entry you have placed on PURPA sellers in Idaho.

On page 13 of your decision, you state:

It is the Commission's belief that a legally enforceable obligation translates into reciprocal contractual obligations for both parties via a quid pro quo. It is not just a lock-in of avoided costs rates but is also an obligation to deliver. We are asked by the wind QFs to accept that there is no reciprocal QF requirement other than committing to provide the utility with any energy actually produced, no obligation to deliver estimated amounts. The question posed by Idaho Power is whether we should continue with a method that was reasonably well suited for the usual type of QFs of the past to determine that a different approach is now in the public interest for a new generation of QFs. The changes in the electric industry and the constraints, challenges and opportunities now faced by Idaho Power indicate to this Commission that the QF resource portfolio of the Company must be managed or administered more efficiently.

Let's look at this reasoning. You say, "The question posed by Idaho Power is whether we should continue with a method that was reasonably well suited for the usual type of QFs of the past". My question is why not. Are there significant differences between the new QFs and QFs of the past? During 2003, as stated on page 14 of the order, Idaho Power purchased about 75 aMW of QF generation, yet the nameplate capacity of the QF facilities under contract was 182 MW. This translates to a capacity factor of 41%. With the new technologies for wind turbine and towers becoming available, PURPA wind farms have capacity factors of at least 32%. Is this that great a difference that the system must be changed? I don't think it is.

The 90% to 110% band is one of the bigger changes from previous PURPA rules in Idaho. Apparently the previous rule that, "was reasonably well suited for the usual type of QFs of the past" is no longer useful or valid for new QFs. I don't think there is any demonstration of fact that this is true. The burden of payment to a QF at 85% of Mid-C for all power generated when generation for a given month is less than 90% of the predicted amount is too great a penalty. Instead of creating better predictions, it will result in gaming of the system, which is of no benefit to me as an Idaho Power ratepayer.

Instead of creating better predictions the result of your ruling may be for QFs to find ways of insuring that generation does not fall below predicted amounts. In fact, I am already thinking of a way wind power developers can meet this requirement, and perhaps it would not be that bad a deal. A 35% capacity factor wind farm under normal and average conditions would translate to a nameplate rating of 28.57 megawatts. The wind farm could have backup turbines that are not considered are part of the normal operation of the project. They are there to insure meeting the 90% to 110% band if the prediction turns out to be wrong on the lower output side. This means a wind farm of this size would have approximately 19 1.5 MW turbines for normal operations and could have three 1.5 MW turbines for backup generation. The wind farm operator would run the backup (insurance) turbines starting at the beginning of each month and shut them off if running them would exceed 7,440 MWh in a month (assuming 31 days * 24 hours * 10 MW). The instantaneous capacity of the wind farm could be as high as 32.5 MW or even more if the capacity factor for the average and normal month using the non-backup turbines were less than 35%.

How does it make sense from a cost standpoint for QF developers to install backup diesel generation or some other highly expensive system to make the renewable energy resource

something it is not especially when the cost to Idaho Power is unknown and may in fact be negative? Any extra cost incurred by the QF to meet the 90% minimum when will reduce the ability of Idaho to take advantage of its wind resource and will cost me in higher electric costs, less viable rural economies, a non competitive agriculture sector and pollution from coal-fired facilities located in my air shed.

You must balance the risk imposed to Idaho Power by this ruling with the actual results of this staid, solid, knowledgeable, sane reasoning in the past for which I as a ratepayer am paying dearly. I refer to the approximately \$125,000,000 of extra costs from the purchase by Idaho Power of power from the market during the California Energy Crisis. Did Idaho Power predict this? We're these "experts" with their sane logic right?

One of the ways to look at this is that we live in a world that follows the laws of chaos and chaos theory, not the subset called Newtonian in which one cause always results in the same effect. From the Newtonian perspective, the California Energy Crisis is an aberration in an otherwise stable world. From a chaos theory perspective, it is the way the world works, and is highly expected and normal. Thinking from this perspective, Idaho Power's statement on page 15 --

Wholesale markets have standardized the terms and conditions of wholesale firm energy transactions. As a result, wholesale firm energy purchases from creditworthy counterparties are now generally accepted as a prudent and cost-effective way of meeting portion of a utility's resource needs.

looks to be highly Newtonian. And who are the "creditworthy counterparties"? Could any of them be Southern California Edison, Pacific Gas and Electric, Portland General Electric, Northwest Energy or Sierra Pacific? NOT. Who would you pick? Having more of its power from distributed local energy sources that rely on non-price-volatile fuel sources should reduce the risk. But not if a deal killer is included in PURPA rules resulting in no projects.

You should also keep this in mind when considering the supposed costs of integrating wind. What are the costs of not integrating wind, especially small wind?

The following excerpt from Shane Mahoney's September 2004 report "Culture and Economic Development in the Spokane Region," may shed addition light on the topic:

The famous economist Joseph Schumpeter defined capitalism as a process of "creative destruction" - a social, political and economic way of life in which established patterns of commerce are continually being redefined. However, it should be obvious that there is nothing inevitable about the emergence of a cultural outlook that sustains such a dynamic. Where a different ethos has become well established, organizations within it find it difficult or impossible to change themselves. In that context, operational codes function to ensure continuity rather than disruption - what might best be understood as positive feedback with negative results.

I think the \$125,000,000 is a result of just such thinking. You may be pushing things to remove the 90% - 110% band, but, as you know, you sometimes have to provide this impetus. Idaho Power is not going to change what has been successful with in the past. Also, where were the leaders when Idaho Power committed such a high percentage of its supply to the market before the California Energy Crisis?

In the long run, and who should think long term, you or Idaho Power, we need more diversification of power supply both from an energy resource perspective and from ownership perspectives. PURPA is the only law that provides a market for the smaller wind power producer and as such needs to be something very useful. If you keep the 90% to 110% band, if we have projects, I think we will see much creativity in complying with it. In any case, I think it will add cost to the overall electricity supply system and allow a large coal fired power plant to be built at a higher cost than PURPA projects. For all the above reasons, I support Marsha Smith's dissenting opinion and encourage you to change your decision in this direction.

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Jean Jewell

From: Ed Howell
Sent: Monday, December 06, 2004 2:23 PM
To: Jean Jewell; Ed Howell; Gene Fadness; Tonya Clark
Subject: Comment acknowledgement

WWW Form Submission:

Monday, December 06, 2004
2:22:59 PM

Case: IPC-E-04-8, Order No. 29632
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mailing_list_yes_no: yes
Comment_description: Hi;

I work with renewable energy projects worldwide and I have a pretty good idea of normal language and the basic intent of Purpa rules. I encounter interconnections and renewable projects often.

I am concerned by wording on penalties for QF's not meeting forecasted energy projections. What I believe (and hope) is that the wording in your case is a typo. It is in direct conflict with your press release, and is punitive to the level that it will eliminate all investment and finance-ability of renewable wind projects in Idaho. Purpa encourages equal and fair access of small QF's to the grid. The "85% of market" wording eliminates all access for wind projects that need any external investment.

I strongly suggest that you assess the net impact of this wording and correct it to a reasonable and fair wording. The uncertainty your ruling invokes must be removed if wind projects in Idaho hope to obtain financing. I believe that Purpa does not intend to limit wind connections to hobby farms and I perceive that this wording makes Idaho a hobby wind access state and I hope that was not your intent.

I commend you on all other portions of the case. I thought that it was well presented and offers a fair and reasonable approach.

I would be glad to discuss the wording and offer suggestions on request.

Respectfully submitted;

Gary Seifert

Transaction ID: 1261422.59
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Jean Jewell

From: Ed Howell
Sent: Friday, December 03, 2004 4:25 PM
To: Jean Jewell; Ed Howell; Gene Fadness; Tonya Clark
Subject: Comment acknowledgement

WWW Form Submission:

Friday, December 03, 2004
4:24:37 PM

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mailing_list_yes_no: yes

Comment_description: I believe there is a mistake in the wording of one sentence of the Commission findings for this Case/Order. The sentence is on page 20 of the findings document and it reads as follows: "We instead find it reasonable when the QF fails to deliver 90% of the monthly commitment amount to price all delivered energy at 85% of the market price, or the contract rate, whichever is less". This sentence appears to contradict the sentence before it that mentions Idaho Power's shortfall proposal has the potential to "exact too heavy a price". It also appears to contradict the wording in the Press Release about these findings. Here is an example to illustrate. Let's say that I'm a QF power producer working with Idaho Power and I forecast to them one month that I will produce 3,000,000 kWh that month. Then let's say that at the end of that month I've only produced 80% of that forecast, or 2,400,000 kWh for that month. 90% of the forecast would be 2,700,000 kWh, so I have a shortfall in energy of 2,700,000 minus 2,400,000 for a result of 300,000 kWh according to the 90-110% band requirement. Now according to the wording of Idaho Power's proposed penalty, if my contract avoided cost rate was \$0.05/kWh and 85% of market price was \$0.03/kWh, there would be no penalty (difference in price was negative, so Idaho Power didn't have to pay extra to purchase the power off the market to make up the shortfall), and the amount I would be paid for my energy generated would be 2,400,000 kWh times \$0.05/kWh for a total of \$120,000. If we were to follow the PUC ruling rules, I would be paid 2,400,000 kWh times \$0.03/kWh for a total of \$72,000. I would be paid \$48,000 less with the PUC rule over what Idaho Power proposed! Now if 85% of market price happens to be more than my contract price for that month, then there really is no penalty, but when it is, this penalty is a killer. Regardless of all of the other findings, wording and improvements in the ruling, the one sentence described above would prevent anyone from ever doing a PURPA project in Idaho, if Utilities and producers were both required to follow this ruling.

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